



THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 10/1/2010

GAIN Report Number: MX0068

Mexico

Sugar Semi-annual

Sugar, Sugar cane, and HFCS Situation

Approved By:

Garth W. Thorburn

Prepared By:

Dulce Flores

Report Highlights:

Sugar, sugar cane, and high fructose corn syrup (HFCS) production for marketing year (MY) 2010/11 is expected to be higher than previously forecast. Centrifugal sugar production is expected to be 5.4 million metric tons-raw value (MMT-RV). Consumption of sugar and HFCS is forecast to increase and centrifugal sugar exports will be about 500,000 metric tons raw value (MT-RV). HFCS imports are forecast to continue at high levels, near 900,000 MT dry basis, for MY 2010/11.

Commodities:

Sugar, Centrifugal

Sugar Cane for Centrifugal

Sugar Beets

Corn

Production:**SUGAR**

The National Sugar Committee (CNDSCA) of the Secretariat of Agriculture (SAGARPA) has not released a sugar production forecast for MY 2010/11; however, sources forecast sugar production at 5.40 MMT-RV due to increasing sugar cane and mill yields. Although there are no official damage reports to sugar cane areas in Veracruz, where Hurricane Karl hit in mid-September 2010, the National Sugar Cane Association declared that about 60,000 hectares out of 280,000 hectares could have been affected in the state. CNDSCA indicated that until the level of water recedes, the association would not know the extent of damage to the cane crop. In addition, harvesting delays could be expected in the flooded areas.

Sugar production for MY 2009/10 was revised downward to 5.11 MMT-RV, based on preliminary estimates (October/July) released by CNDSCA. Lower production is attributed to weather-related problems, mainly late rainfall that prevented the harvest season from starting on time, and lower sucrose content. The sugar production estimate for MY 2008/09 remains at 5.26 MMT-RV.

The planted and harvested area forecasts for sugar cane for MY 2010/11 were revised upward from previous estimates based on preliminary production data. However, there could be some marginal changes because of heavy rainfall associated with Hurricane Karl. The MY2009/10 estimated planted area was revised upward and the harvested area was revised downward from previous estimates due to unfavorable weather. Sugar cane production for MY 2009/10 was revised upward from previous estimates to 43,370 MMT.

Even though there are provisions within the National Program for the Sugar Cane Agroindustry (PRONAC) to encourage the production of ethanol from sugar cane, particularly for export markets, production is still not profitable due to low international oil prices. In addition the Biofuels Law lacks provisions that would permit the marketing of sugar based ethanol.

HIGH FRUCTOSE CORN SYRUP

According to IDAQUIM, the industry group that represents HFCS producers, this industry consumes about two million tons of yellow corn, of which about 80 percent is imported, most from the United States. Since grain trade has been fully liberalized under NAFTA, Mexican industry imports may occur

at any time. Nevertheless, the Government of Mexico continues to encourage forward contract purchases between farmers and yellow corn buyers in an attempt to influence production patterns. Sources indicate that Mexican farmers will continue planting white corn for cultural and agronomic reasons. In particular, sources report that many producers are resistant to change for cultural practices and yellow corn yields are lower in comparison to those of white corn.

HFCS production for MY 2009/10 is estimated at 452,000 MT dry basis, which is 25 percent higher compared to MY 2008/09 production of 361,000 MT dry basis. HFCS production increases in MY 2009/10 are attributed to higher domestic sugar prices. According to industry sources, HFCS production for MY 2010/11 could be similar to MY 2009/10 levels as long as domestic sugar prices remain high in comparison to HFCS prices. Industry members indicate that there is no additional capacity being built or expanded as it is easier and financially better to import the remainder of the HFCS demand.

Consumption:

SUGAR AND HFCS CONSUMPTION

The domestic sugar consumption forecast for MY 2010/11 was revised downward from previous estimates to 4.74 MMT-RV. However, it is an increase compared to MY 2009/10 consumption. Domestic sugar consumption for MY 2009/10 was revised downward from previous estimates to 4.67 MMT-RV due to decreasing purchasing power and high retail sugar prices. The high sugar prices led to the utilization of more HFCS, mainly by soft-drink bottlers.

According to the Secretariat of Economy (SE) National Market Information Service (SNIIM), wholesale sugar prices increased over 70 percent for standard sugar and about 47 percent for refined sugar between January and August 2009. SE expected that domestic inventories would allow the country to have adequate supplies at cheaper prices until October when the new sugar harvest would begin. However, cane harvesting was delayed and wholesale sugar prices increased over 100 percent for standard and refined sugar between August 2009 and March 2010. Although sugar prices began to decrease after April 2010, they remained high in comparison to 2009 prices. September 2010 prices show a normal increase that is often present at the end of the marketing year.

Table 1. Mexico: Average Wholesale Sugar Prices in Mexico City (CIF Basis) in Pesos per 50 Kilograms - Bulk

Month	Standard			Refined		
	2009	2010	Percent Change	2009	2010	Percent Change
January	272.75	552.25	102.47	329.50	647.71	96.57
February	272.88	626.75	129.67	329.33	679.17	106.22
March	289.20	587.83	103.26	339.07	679.03	100.26
April	329.63	553.75	67.99	357.34	670.73	87.70
May	337.17	512.92	52.12	395.00	639.21	61.82
June	371.20	482.00	29.84	429.23	605.80	41.10
July	424.17	493.75	16.40	451.67	591.17	30.88
August	465.25	503.13	8.14	484.58	565.67	16.73
September	658.50	*584.20	(-11.28)	688.00	*591.67	(-14.00)
October	616.25	N/A	N/A	660.83	N/A	N/A
November	599.21	N/A	N/A	671.67	N/A	N/A
December	562.10	N/A	N/A	625.28	N/A	N/A

Source: Servicio Nacional de Informacion de Mercados SNIIM-ECONOMIA

http://www.economia-sniim.gob.mx/Sniim-an/e_SelAzu.asp?

*Through September 21, 2010

Table 2. Mexico: Monthly Exchange Rate Averages for 2007-2010 in Mexican Pesos per U.S. \$1.00

Month	2007	2008	2009	2010
January	10.94	10.91	13.15	12.80
February	10.99	10.77	14.55	12.95
March	11.12	10.74	14.71	12.59
April	10.98	10.52	13.41	12.23
May	10.82	10.44	13.19	12.71
June	10.83	10.33	13.47	12.72
July	10.80	10.24	13.36	12.65
August	10.50	10.10	13.00	13.15
September	10.92	10.61	13.41	N/A
October	10.92	12.56	13.24	N/A
November	10.87	12.31	13.12	N/A
December	10.84	13.40	12.85	N/A
Annual Avg.	10.92	11.14	12.33	12.72

Source: Mexican Federal Register

Note: Monthly rates are averages of daily exchange rates from the Banco de Mexico.

HFCS consumption increased during MY 2009/10 to an estimated 1,282,000 MT-dry basis, compared to 767,000 MT-dry basis in MY 2008/09, as higher sugar prices encouraged the soft-drink industry to use more HFCS in its formulations. The sustainability of the increase in HFCS consumption, however,

will depend on domestic sugar price trends, corn prices, domestic sugar supplies, and the peso-dollar exchange rate. HFCS consumption for MY 2010/11 could be similar or slightly higher to MY 2009/10 if domestic sugar prices continue to be higher than HFCS prices.

Trade: SUGAR

Mexican sugar exports for MY 2010/11 are forecast at 500,000 MT due to anticipated higher sugar production. The final export figure will ultimately depend on final marketing year production and the extent of substitution between sugar and alternative domestic and imported sweeteners. Sugar exports for MY 2009/10 were revised upward to about 647,000 MT-RV due to greater international demand.

The MY 2010/11 sugar import forecast¹ remains unchanged from the previous forecast at 270,000 MT-RV. This estimate includes a September 22, 2010, announcement by SE that a tariff-rate quota (TRQ) for 100,000 MT of sugar had been approved for import due to lower sugar inventories that are inadequate to cover demand during the months of September through November. Imports will also depend on the amount of sugar required to cover the needs of the Mexican re-export program (IMMEX) industries.

Sugar imports for MY 2009/10 were revised downward to 812,000 MT-RV. Due to lower inventories for MY 2009/10, on February 9, 2010, SE announced that Mexico would allow the importation of an additional TRQ of 250,000 MT of sugar (265,000 MT-RV). SE implemented a first-come, first-served method for administering the TRQ between March 1 and May 20, 2010. The TRQ was for \$13.80 to \$36.60 per MT, instead of the general tariff (\$338 to \$360 per MT of sugar), depending on quality. Ninety percent of the quota was to be imported from any country and the remaining 10 percent, at zero duty, was to originate from Nicaragua.

SE, however, only authorized 186,000 MT (175,470 MT-RV) of the 250,000 MT of sugar to enter. On June 2, 2010, SE published two announcements in the *Diario Oficial* (Federal Register) that allowed additional sugar to enter under the TRQ lasting through June 30. In these announcements, SE recognized that Mexico now had sufficient sugar supplies at good domestic prices. In addition, SE indicated that it would allow the importation of the remainder of the sugar under the initially approved TRQ amount of 186,478 MT (197,666 MT-raw value), which was revised downward from the original 250,000 MT TRQ (265,000 MT-raw value). Therefore, the announcement indicated that a total of 22,540 MT of sugar (23,892 MT-raw value) could still be imported until June 30, 2010.

For more information on TRQ announcements, please see GAIN Reports: [MX9071](#), [MX9055](#), [MX9056](#), [MX9064](#), [MX9066](#), and [MX0040](#).

¹ Most of the refined sugar imported into Mexico has been classified by customs into the HTS 1701.99 category, corresponding to "other pure sucrose." U.S. sugar exports for Mexico are classified under the same category.

MY 2010/11 sugar use under the “other disappearance” category, which is used mainly for IMMEX industries, is estimated at 380,000 MT-RV of which 170,000 MT-RV could be imported². According to industry sources, IMMEX total use of sugar for MY 2009/10 was 330,000 MT-RV of which 215,000 MT-RV was imported. The IMMEX program allows sugar to be sold to Mexican food manufacturers as raw material for further processing. These food manufacturers must then process the sugar within six months from the date of purchase and export the final processed product. Although this report does not consider these products (e.g., beverages and foods that contain sugar) when calculating sugar exports, the Government of Mexico classifies the sugar in these products as sugar exports under the IMMEX program. Therefore, official export data will vary from the information in this report regarding the volume of sugar exports.

HFCS

The import forecast for MY 2010/11 is expected to increase by about 10 percent over MY 2009/10 estimates of 830,000 MT dry basis. This increase, however, will depend on domestic sugar price trends, corn prices, domestic sugar supplies and the peso-dollar exchange rate. Imported HFCS estimates for MY 2009/10 were revised upward to about 830,000 MT dry basis. Higher sugar prices in the domestic market made HFCS more attractive for users like the soda industry.

Stocks:

Ending sugar stocks for MY 2010/11 were revised upward from previous estimates to 945,000 MT-RV; however, this will ultimately depend on final sugar production levels and exports. Ending sugar stocks for MY 2009/10 were revised slightly downward to 903,000 MT-RV due to lower sugar production and higher exports. Data for MY 2008/09 remains unchanged.

² Decree for the Development of the Manufacturing, Maquila and Export Services Industry. The program was formerly known as PITEX.

Production, Supply and Demand Data Statistics: Centrifugal Sugar Table

Sugar, Centrifugal Mexico 1,000 MT	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Oct 2008			Market Year Begin: Oct 2009			Market Year Begin: Oct 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks	1,975	1,975	1,975	488	623	623	868	1,030	903
Beet Sugar Production	0	0	0	0	0		0	0	0
Cane Sugar Production	5,260	5,260	5,260	4,900	5,123	5,115	5,450	5,350	5,400
Total Sugar Production	5,260	5,260	5,260	4,900	5,123	5,115	5,450	5,350	5,400
Raw Imports	10	0	0	0	50	0	0	20	0
Refined Imp.(Raw Val)	160	159	159	970	785	812	150	250	270
Total Imports	160	159	159	970	835	812	150	270	270
Total Supply	7,395	7,394	7,394	6,358	6,581	6,550	6,468	6,650	6,573
Raw Exports	442	393	393	0	22	0	0	20	0
Refined Exp.(Raw Val)	925	698	698	490	348	647	500	395	500
Total Exports	1,367	1,091	1,091	490	370	647	500	415	500
Human Dom. Consumption	5,065	5,292	5,292	4,600	4,790	4,670	4,550	5,110	4,748
Other Disappearance	475	388	388	400	391	330	400	400	380
Total Use	5,540	5,680	5,680	5,000	5,181	5,000	4,950	5,510	5,128
Ending Stocks	488	623	623	868	1,030	903	1,018	725	945
Total Distribution	7,395	7,394	7,394	6,358	6,581	6,550	6,468	6,650	6,573

Sugar Cane for Centrifugal Table

Sugar Cane for Centrifugal 1,000 MT 1,000 Has	2008/2009			2009/2010			2010/2011		
Mexico	Market Year Begin: Nov 2008			Market Year Begin: Nov 2009			Market Year Begin: Nov 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Planted	759	759	759	728	728	744	740	740	750
Area Harvested	663	663	663	659	659	648	663	663	650
Production	42,517	42,517	42,517	43,317	43,317	43,370	44,000	44,000	44,000
Total Supply	42,517	42,517	42,517	43,317	43,317	43,370	44,000	44,000	44,000
Utilization for Sugar	42,517	42,517	42,517	43,317	43,317	43,370	44,000	44,000	44,000
Utilization for Alcohol	0	0		0	0		0	0	
Total Utilization	42,517	42,517	42,517	43,317	43,317	43,370	44,000	44,000	44,000

Author Defined: ETHANOL

The Biofuels Law, which first passed Mexican Congress on April 26, 2007, and was amended in October 2007, was published in the *Diario Oficial* on February 1, 2008. As previously reported, the Law contains a comprehensive biofuels policy that promotes ethanol production from different

agricultural commodities. According to the sugar mill industry, ethanol production from sugar cane in Mexico is neither feasible nor profitable, however, due to the high price of cane, the need for the vast majority of production to be used for centrifugal sugar, and the lack of a domestic ethanol market.

The cost of ethanol production per ton of cane is high compared to that in countries like Brazil, where sugar cane is sold for between \$15 and \$18 dollars per ton (in Mexico, sugar cane is about \$37 to \$40 dollars per ton). There are, however, provisions within the Sugar Law that contain overall goals focused on the possibility of producing ethanol. Thus far, however, necessary government policies have not been implemented and Mexico's investments in ethanol have focused on corn-based production.